

**Comment** [on Robert Lawrence's Paper at Kennedy School Conference]

By

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I face three distinguished members of the Clinton administration --- the USTR Charlene Barshefsky, the White House adviser on trade to the President, Lael Brainard, and the author, Robert Lawrence, who also served as a member of the Council of Economic Advisers. They will proclaim the administration's success with trade policy, whereas I hold the diametrically opposed and published view that the administration's trade policy left much to be desired, and in key respects was a disaster.<sup>1</sup> I feel therefore very much like Gary Cooper in High Noon. But let me assure the Chair that, unlike Garry Cooper, I shall not turn in my badge and ride my buggy away from the scene even if I win. I have every intention of staying on, fighting the good fight for a better trade policy, for one's task is never done if one is a free trader, and a multilateral one to boot, as I happen to be.

I must compliment Lawrence on a characteristically splendid paper. It is a bird's eye view of virtually the entire trade policy scene and every reader will profit from reading it. The bird is, however, the American eagle and, despite the author's cosmopolitan temperament and record, I shall argue that the evaluation of Washington's trade policy under the Clinton administration is a trifle, even excessively, indulgent.

But, ignoring the inevitable disagreements on details that a paper of such scope entails, let me raise at the outset three general issues about the Clinton hagiography. First, Lawrence talks at times, and so do most former officials of the administration, of Clinton "believing" this or that. I am not privy to the former President's beliefs; and I doubt if these officials are either. Indeed, at the beginning of his first term, many of us were doubtful about President Clinton's commitment to free trade; and I said mischievously at

a Washington meeting that, while the problem with President Bush, his predecessor, was that one could not read his lips, the problem with President Clinton was deeper: one did not know whether to read his upper lip or his lower lip. But, whatever the truth of the matter, we cannot go even by his speeches. After all, with American politicians, we know that others write their speeches, a practice that we deplore even in the weaker version such as the notorious Millie Vinelli episode, and which we academics cannot emulate: I have never succeeded in getting an Assistant Professor to write my article for me, leave aside hogging the credit for his work instead.

Second, since Lawrence addresses the 1990s and the Clinton administration record, more or less as if the two were the same, let me say that the Clinton administration did not start until 1993. More important, we have a problem that afflicts every assessment of an administration's record: initiatives and work that began under earlier ones will cross over into the one we are assessing, and initiatives begun under the latter will likely bear fruit in the succeeding administrations. In the case of the Clinton administration, it can be fairly said that the Uruguay Round was begun earlier and was close to completion when the Clinton folks came in: they simply completed it, standing on the shoulders of their predecessors and grasping the prize. I do not deny that they had to work very hard to do so, balancing themselves precariously and reaching out at the definite risk of falling off these shoulders. The Clinton administration deserves some credit for sure, but the toast must be drunk to its predecessors on this one.

But both good and bad things were inherited. Thus, the discredit (in my view) for having gone after NAFTA --- which, as I argue below, has had important adverse effects

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<sup>1</sup> I have argued this thesis in my latest collection of public policy essays, [The Wind of the Hundred Days: How Washington Mismanaged Globalization](#), MIT Press:Cambridge, 2001.

on multilateralism --- belongs also to the previous administration, and especially to Messrs. James Baker and Robert Zoellick, who were and are energetic proponents of not just NAFTA but also of the bilateral Preferential Trade Agreements that now disfigure the world trading scene and to which Mr. Zoellick now plans to devote his new duties. [Of course, despite all this, there are some defining and huge events (such as the Seattle debacle at the WTO Ministerial), and almost completed but minor initiatives (such as the PTA with Jordan) that are virtually entirely to be attributed to the Clinton administration; but more on this below.]

Third, Lawrence should not suggest, however fleetingly, that the critics of the Clinton trade policies and performance are either far out on the right (like Pat Buchanan) or on the extreme left (like Ralph Nader) and that the “pure free traders”,<sup>2</sup> whatever that means, such as myself are also somehow on the “right” and that they belong to either the American Enterprise Institute or the Cato Institute. As it happens, I am a Democrat myself, and my affiliations are multiple and have extended also in varying ways to Brookings, Council on Foreign Relations, the United Nations, the GATT, the WTO, Human Rights Watch, and on and on. I have the certain knowledge that this is true also of many trade economists who have misgivings about the Clinton administration record. Also, whenever I have organized petitions on trade issues faced by the Clinton administration (and its predecessor as well since I am an Equal Opportunity critic of bad policies), the signatories have included numerous Democrats who have been unhappy with Washington.

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<sup>2</sup> I am not sure that Nader could be described as being on the extreme left. He is totally misguided on trade policy, but his views on the need for countervailing corporate power are shared widely and were reflected even in the Gore campaign’s central themes.

Indeed, this is important to remember also since many defenders of the Clinton administration's failings in trade policy come back by saying that Reagan or Bush did worse. Maybe. But perhaps things were worse in the Garden of Eden too: if, in lieu of autarky, the wretched apple had only been traded for something more innocuous, Adam and Eve would have continued in bliss. It is better to measure each administration against itself, its challenges and whether it met them, its potential and whether it rose to it. In short, at least in the reflective atmosphere of the academe, we ought to be able to avoid making our analysis captive to a partisan spirit, difficult as this is.

But let me now get down to real business. The administration's success could be judged by reference to two broad, and generally distinct, criteria:

- Criterion 1: How much did trade expand; how many trade agreements were signed; etc.: an approach that dominates certainly Ambassador Barshefsky's comments and is present also in Lawrence's paper at various points; and
- Criterion 2: Did the administration affect the atmospherics of trade, and the architecture of the world trading system, in the right way?

Criterion 1: Yes, indeed, Lawrence is right to argue that, by the criterion of trade expansion, the Clinton record is pretty good. But, since Lawrence implies (and Ms. Barshefsky has also suggested in her comments) that this was courtesy of Washington's policies, and particularly because of the numerous trade agreements signed under Ms. Barshefsky's watch, let me make a few important qualifiers.

We must recognize that trade has grown rapidly, even as a proportion of GNP, worldwide and for some time going back way before the 1990s. We therefore need to

take the partial derivative here. How much did these agreements add to what would have happened anyway?

Thus, for example, service trade has been growing phenomenally even prior to the Uruguay Round's GATS agreement whose aim is not just to open markets further but to introduce some discipline and rules in this trade, these latter objectives translating more into better quality rather than into increased quantity of trade flows.

Again, much of the expansion reflects, not any agreements to liberalize trade, but also a great amount of unilateral trade liberalization worldwide that has had little to do with agreements or even aid conditionality.<sup>3</sup> It is hard to say whether this accelerated in the 1990s but in areas such as South America, Central Europe and India, there is indeed evidence that it did.

Moreover, Lawrence tends to attribute more to the Preferential Trade Agreements than is legitimate. Our PTAs with Chile and Singapore are, of course, still not negotiated, whereas Jordan is not yet approved. But the former two represent agreements with countries that have unilaterally liberalized their trade. They seek PTAs with us because they face trade diversion against them from our preferential policies, leaving aside political reasons. So, the bottom line is: they have already opened their markets and are happy to finish their job unilaterally, whereas it is we who are indulging in preferential agreements to bring them into the PTA fold with us! It makes no sense for us to take credit for such a situation by suggesting that we are "opening the markets of the world" through these PTA agreements.

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<sup>3</sup> I recently directed a project on the subject of unilateral trade liberalization. The volume resulting from it is being published shortly. Cf. Jagdish Bhagwati (ed.), Going Alone: The Case for Relaxed Reciprocity in Freeing Trade, MIT Press: Cambridge, Spring 2002.

In this vein, I should also remind Lawrence, who surely knows this well, that all agreements should not be lumped together with equal weights. I can understand Ms. Barshefsky, who is a lawyer, claiming that she has signed nearly 300 trade agreements. So did USTR Mickey Kantor, of course. To a trade negotiator, perhaps every agreement is another feather in her cap. But these agreements surely include several sectoral trade-restricting agreements, such as those under the MFA I guess. Are trade-restricting agreements to be equated with trade-liberalizing ones? And, even among the trade-liberalizing ones, is a piffling US-Jordan FTA of the same value as the Uruguay Round? And, is a failure such as Seattle, to be balanced off against the success of a sectoral agreement, however large in scope?

Criterion 2:

But, even if all these qualifiers and nuances were reflected in the assessment, the verdict on the Clinton years would be woefully incomplete and misleading. The real problem with the Clinton administration was that it contributed adversely to the atmospherics of trade policy, and hence undermined unwittingly but surely the architecture of the multilateral world trading system. Consider just a few important points.

(1) It can fairly be said that the Clinton administration elevated allegations of “unfairness” into a major problem in dealing with trade openness and liberalization. President Clinton came into office, with Japan-baiting and Japan-obsession at center stage. Charges of Japan’s unfair trade practices were the hallmark of the administration. Revival of Super 301 was right inside the party document, Putting People First. The

infamous US-Japan auto dispute, which (contrary to Lawrence's approbation)<sup>4</sup> turned into a fiasco for the administration, both reflected the obsession with unfair trade and contributed to its exacerbation.

(2) Taking NAFTA through the Congress for a successful outcome was, from the viewpoint of the increasing encroachment of "fair trade" notions, another turning point. Protectionists who feared free trade with Mexico, and these included labor unions that feared a decline in their worker's real wages and loss of jobs across the Rio Grande, could zero in on the warts on Mexico's face and turn them into "fair trade" issues. This was true of Mexico's labor and environmental state and standards, for sure: the protectionists claimed that free trade with Mexico was unfair trade by Mexico unless labor and environmental restrictions were put into the NAFTA treaty. This was not the case with the Uruguay Round where the multiplicity of nations precluded zeroing in on one country's non-trade situation. Thus, in debates that I had with anti-trade activists over NAFTA, I was often told: you can have the Uruguay Round but NAFTA we will give you only over your dead body. NAFTA helped make credible the notion that non-trade issues, with persistent lobbying, could be made into "fair trade" preconditions for trade liberalization.

The US has had to live with the consequences ever since: the failure to secure fast track, the Seattle debacle, the present impasse over the Trade Promotion Authority have their origins, to a large extent, in the NAFTA debate and outcome. Was NAFTA worth it all? I doubt it, leaving aside also the fact that it has pushed the US still further and

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<sup>4</sup> Cf. My detailed analysis of the dispute and how the USTR had declared victory but was only masking defeat, is in an essay published in International Affairs, and reprinted in my public policy essays, A Stream of Windows: Unsettled Reflections on Trade, Immigration and Democracy, MIT Press:Cambridge, 1998.

decisively into the embrace of a trade policy of proliferation of bilateral and plurilateral PTAs which I believe to be a mistake.

In fact, the cancer of “fair trade” has spread so deeply into the American body politic by now, and the Clinton administration must take its share of blame for it<sup>5</sup>, that even the present President Bush, who had studiously avoided the invocation of fair trade when endorsing free trade, succumbed to it in announcing his 201 action against foreign steel. This is a safeguard action (which has nothing to do with whether the market-disruption is due to unfair or fair trade) but the administration announced it while claiming that foreign nations were “unfairly” exporting steel to us.<sup>6</sup> The action was bad enough from the viewpoint of free trade in steel; but the language of unfair trade made it far worse in stroking the monster that the previous administration had fed and raised.

(3) The Clinton administration also fed the virus of unfair trade by a frequent resort to Section 301 which, of course, relies for the most part heavily on the notion of unfair trade by others. President Bush had reluctantly signed on to the 1988 Omnibus Trade and Competitiveness Act which had made this a more deadly instrument; but remember that President Clinton’s administration was more enthusiastic, in light of the Japan-obsession with which it came into office.

The Panelists today suggest that the Clinton administration sheathed this nasty

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<sup>5</sup> My position is only that the Clinton administration gave this cancer an immense boost. I had actually talked about this cancer, and its spread, and raised an alarm over it in my 1990 Harry Johnson Lecture in London, published later as The World Trading System at Risk, Princeton University Press: Princeton, 1991.

<sup>6</sup> This misled even our “newspaper of record”, the New York Times, into editorializing as if this was an anti-dumping action! Our trade policy coverage in the best newspapers can border on the abysmal, unlike that in the “foreign legion” represented by The Financial Times and The Economist.

sword. But surely, only after the high-profile US-Japan auto dispute debacle and the massive criticisms abroad,<sup>7</sup> and in the end only when the WTO Dispute Settlement Panel in 1999 virtually made its use de facto WTO-illegal, while giving us a face-saving victory and the EU the real victory, that we can claim that this sword was finally sheathed.

(4) That brings me to the Seattle debacle. That outweighs any success that the Clinton administration may claim. It was a direct blow to the multilateral system and has also served to accelerate the shift to bilaterals in Asia. (a region which had been generally free from this affliction).

Was it something that could be blamed on Mike Moore (as many in Washington would like to believe) or on the disorder in the streets that came (presumably exogenously to our actions and inactions) from the foes of free trade and of the WTO? Some have even argued that the problem was that the conference hall was not available over the weekend to complete negotiations that were “close to completion” because the optometrists had booked it for their convention: apparently if we had only consulted them and restored our 20/20 vision, we could have kept the hall away from them and for our glorious purpose.

I will only briefly assert, what I and others have argued at length elsewhere, that Washington gets the lion’s share of the blame. There was little effective preparation for Seattle, to secure the kind of negotiating text with which we could operate at the speed necessary. Washington had also disregarded the obvious signs of impending disorder,

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<sup>7</sup> I remember Arthur Dunkel, then Director General of GATT, whom I was Economic Policy Adviser to in 1991-1993, telling me that nothing had unified the GATT members as much as their opposition to the 301 legislation and actions of the United States. For a proper assessment of 301 legislation, we must remember however that one part of it dealt with enforcement of existing obligations and another with creating new ones; it was the latter that created the resentments, not the former (when it followed favorable GATT Dispute Settlement Panel findings which were blocked from being adopted by the GATT Council). See, in

making no preparation for the chaos that followed. Reliance on Seattle authorities to manage the meeting without significant federal input was surely a mistake as well. I have returned to Seattle several times after the debacle, to debate anti-trade activists; and I must say that Seattle is an ultra-liberal city that makes even Massachusetts seem conservative! And then President Clinton's gaffe over trade sanctions for labor issues was critical; whatever his reasons for this --- I myself do not think it was unwitting and believe that it was calculated ---, it did finally kill the Seattle Round.

(5) This brings me to other ways in which the Clinton administration appears to have failed us. With Seattle goofed up, the effect was to create the notion that the NGOs and the unions had "won the battle of Seattle". President Clinton did not confront the street violence and demonstrators in the clear tone of condemnation that Prime Minister Tony Blair has firmly deployed, calling them "louts". He was instead accommodating and indulgent. As for the unions' fears of free trade and their inappropriate demands to amend the WTO to apply trade sanctions to countries and their products apropos of lapses from a Social Clause, he did not forcefully refute these fears and demands.

Recall that the turning point in the NAFTA debate came with Al Gore's success in the debate with Ross Perot. We needed a debate where Clinton would slay John Sweeney: but we never got it. Nor did we get a direct attack on Mr. Sweeney's fears and demands from the White House. Nor were there any new creative initiatives at ILO and other agencies where social and environmental issues could be pursued without the use of trade sanctions nor any systematic argumentation about the relative demerits of a WTO-

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this regard, the papers by me and Robert Hudec in Bhagwati and Patrick, Aggressive Unilateralism, 1990, op.cit.

based, trade-sanctions-using approach. In short, President Clinton at Seattle got what he deserved, but not what we deserved.

(6) Finally, let me say that while, under Clinton administration's watch, there have been important sectoral liberalization agreements, this must be set against the fact that these agreements take the affected business groups out of the multilateral arena. If you have already gotten your liberalization through sectoral agreements, why waste time and lobbying resources for the new Round? Hence, the politics of getting multilateralism going becomes more difficult. This is in contrast to the sectoral trade-restricting agreements such as the MFA in the past: they took the difficult sectors out of the negotiations and enabled multilateralism to flourish instead!

This is equally true of the bilateral and plurilateral PTAs. If you invest in getting NAFTA, you (in exporting business) get the benefits of your lobbying efforts all to yourself since NAFTA is a PTA. But if you invest in the Uruguay Round or a new Qatar Round, the liberalization that follows would be on an MFN basis: other "free riders" benefit too.

Then again, if you have negotiated a special preferential benefit for yourself, you have no real interest in pursuing it for all at Geneva. This is seen in the fact that, in the latest anti-dumping dispute where several countries have joined as plaintiffs against the US, Canada and Mexico did not join but are now likely to because they have discovered that they too can be charged with dumping.

So, getting support for multilateral efforts on trade liberalization gets more difficult. Interest in the WTO then wanes. Though Lester Thurow was wrong in declaring the GATT was dead, we must then begin to worry about the WTO beginning to suffer

from neglect, even atrophy though not a certain death. Meanwhile, the world trading system would see a continuing proliferation of bilaterals, which Ambassadors Kantor and Barshefsky may celebrate as feathers in their cap, but which are rapidly creating a maze of preferences that I have called a “spaghetti bowl” and which are a blight on the world trading system. Let my last vignette for Lawrence be that the EU, the chief sinner in this regard, now has only 5 countries enjoying MFN tariff access to it, with all others enjoying some special preference or the other. So, the MFN tariff has now become the LFN tariff: it applies to the least favored countries! And so our cynicism, and not just our distress, multiplies.